SPEECH

# MR. RAFAEL MIRANDA

CHAIRMAN

## GENERAL SHAREHOLDERS MEETING

3RD June 2015

# ANNUAL GENERAL MEETING 2015
# CHAIRMAN'S REPORT

Shareholders, Ladies and Gentlemen,

I have the honour and pleasure of addressing you for the second year for our AGM.

I want to begin my remarks by thanking you again, on behalf of the entire Board of Directors and personally as Chairman, for joining us today.

We meet at this General Meeting to review our company activity over the past year, 2014. I want to say from the outset that we obtained very positive results for the year, as you will see for yourselves in the presentation which the CEO and myself will make in the next few minutes.

We all know that Acerinox is a global enterprise, possibly the most global company of all stainless steel manufacturers — the only one with manufacturing facilities in four continents and a sales network in 36 countries across five continents. Our progress is therefore closely linked to the international economy and particularly to regions or countries of the world where we have a significant presence. Our main market is the United States, followed by Spain, Germany, South Africa and Canada. Malaysia, already among the top ten markets for the Group, also deserves special mention.

Our Group's performance during FY 2014 has been influenced by the development of these economies and also by the specific conditions prevalent in the global stainless steel industry, of course.

## <u>The International Economy</u>

GDP growth of the global economy in 2014 reached 3.3 percent, slightly below the previous year's — at 3.4 percent. It has been affected by 1.6 percent growth in developed countries, which advanced positively taking into account the 1.1 percent growth in 2013, but also the slowdown in emerging countries, which grew by 5.9 percent when in 2013 they grew by 6.2 percent.

Among developed countries, the 2.4 percent growth experienced by the United States is worth noting. The Eurozone advances, at 0.9 percent, after a negative growth of 0.4 in 2013. And the UK posts very strong 2.8 percent growth after growing by 1.7 percent in 2013. Within the Eurozone, I wish to underscore — due to the vital importance for us — the growth of the German economy at 1.6 percent, and the Spanish economy, at 1.4 percent.

Emerging economies revealed slowdown figures for the fifth consecutive year. This is mainly because of slower economic growth in China at 7.4 percent, down from 7.7 percent in 2013, which could point to a shift in the country's growth pattern. The region-wide slowdown also doubtless stems from geopolitical tensions and the negative impact of falling oil prices on oil-exporting countries. Among these emerging countries, worth noting is the poor performance of the Brazilian economy — down from 2.7 percent last year to 0.1 percent — and the Russian economy — down from 1.3 percent to 0.6 percent. However, economies so vital to us like India (up 7.2 percent), Malaysia (up 6 percent) and Vietnam (up 6 percent) performed more strongly than the previous year, while South Africa slipped down to 1.6 percent after growing at 2.3 percent in 2013, influenced by mining conflicts during 2014.

During the first quarter of 2015 the world economy seems to be accelerating slightly, fuelled by the expansionary effects of lower oil prices and easing of monetary policy, although this acceleration in the pace of activity is occurring unevenly across countries.

In any case, the outlook for 2015 is for the global economy to grow by around 3.4%. The growth forecast for the US economy is around 3% despite the weak 0.2 percent figure for the first quarter due to the impact of bad weather, a strong dollar and lower investment in the energy industry. The weak first quarter will surely be offset during the remainder of the year by stronger private consumption, judging by the good employment figures and continued high wage policies. The Fed's strategy will at any rate be especially relevant in determining continued growth. The manufacturing PMI for May stands at 53.8, slightly below 54.1 in April, the lowest it has been this year, leading some analysts to speculate about a possible slowdown of the expansion phase.

Growth forecasts for the economy of the 28 EU member countries range from 1.4 to 1.6 percent over the previous year. France and Italy seem to improve, with growth forecasts of 1.1 percent and 0.7 percent respectively. Germany could be set to grow anywhere from 1.4 to 1.9 percent, and the Spanish economy stands out with 2.8 to 3 percent growth forecast. The slight improvement in the manufacturing PMI might suggest a consolidating growth rate, always overshadowed, of course, by the looming uncertainty of the Greek crisis, which could change all those forecasts as it unfolds.

China announced interannual GDP growth of 7 percent in 2015, partly reflecting the structural transformation of the economy towards a model based more on consumption, where the services sector gains prominence over manufacturing. Some growth forecasts for 2015 even go as low as 6.7 percent.

The forecasts for the remaining emerging countries are similar to 2014 results, raising concerns about Brazil and Russia. Forecasts are stronger for the South African market, which could reach 2.2 percent growth, still falling short of what we believe could be its full potential.

In short, the global economy is expected to grow moderately, with positive growth in markets where we have a significant presence, such as the United States, Europe and Asia without China. Likewise, if the structural transformation of the Chinese economy is confirmed, it could have medium-term beneficial effects for our industry.

## The Spanish economy

I think the progress of the Spanish economy deserves special consideration.

After six tough years of crisis — in which Spain, Spaniards and many Spanish companies have had to sacrifice greatly — recovery has finally come in 2014, the year we left the recession behind. Despite a complex political situation — tainted by understandable citizen outrage at some episodes of corruption and especially the still fledgling creation of jobs, in spite of all the recent good news — there is no doubt that 2015 will be a year of strong growth and we will be the engines of the European economy together with Germany.

All this has been possible thanks no doubt to the reforms adopted by the Government, the expansionary policy of the European Central Bank and the fall in oil prices. These factors have gradually corrected macroeconomic imbalances, enhanced our economy’s competitiveness and boosted corporate balance sheets. But the upturn has also been due to an unprecedented effort by many of our companies to adapt, transform and in many cases reinvent themselves to improve their competitive position. Indeed, this has been the case of our company, Acerinox, which as we shall see will maintain its efficiency leadership in its industry.

From a purely business perspective, I think we have an obligation, in a particularly complex social and political moment, to clearly express that we must persist in economic policies that guarantee strong, solid and sustainable growth. We must deepen reforms that make our economy more flexible and not reverse measures that have recently proven to be effective. Regardless of people’s legitimate political position, we must acknowledge that political stability is essential for economic progress.

We cannot allow future crises to affect us, in Spain, so brutally as this last one. We are an industrial company and believe in manufacturing. We argue that Spain and Europe need to focus on an intelligent and competitive reindustrialisation at the core of its political agenda. Together with reforms that make our economy and our companies more flexible and competitive, this will ensure the sustainable growth which we still need for stable and powerful job creation.

## Financial Year Variables

As I noted earlier, our company's performance is bound and influenced by the development of economies that are relevant to us, and also by the specific conditions prevalent in the global stainless steel industry.

The CEO will address those particular conditions in our industry at length, but I only want to underscore that achieving the results I am about to discuss is doubly remarkable when you consider that many of the weaknesses in our industry worldwide have continued uncorrected, particularly in terms installed overcapacity, due to China's positioning. This fact does not allow us to develop markets as efficiently as we would like.

Nevertheless, in 2014 the consolidated Acerinox Group posted very positive results.

- EBITDA for the year doubled that of 2013, reaching 454 million euros and an EBITDA margin on sales of 10.4 percent, up from 5.7 in 2013.

- The operating result (EBIT) improved by 237%, reaching 297.7 million euros.

- Profit after tax and minority interests reached 136 million euros, 6.2 times the 2013 figure. Importantly, this result reflects an accounting impairment of 23 million euros due to tax reform in Spain, not involving any cash outflows. Had this adjustment not been necessary, this result would have reached 159 million euros.

I wish to stress that these results are the best achieved by our Company since 2007, when the crisis broke out. These figures clearly consolidate the improvement which began in 2013 and are the result of the successful strategy developed by our Company over the years, its ongoing management efforts, its adjustment policy and naturally the improved conditions of the relevant markets in which we operate.

## First quarter of 2015

In the first quarter of 2015, and despite an uneven performance in stainless steel consumption across markets where we are present, we have been able to obtain results that improve those of the first quarter of 2014.

EBITDA improved by 15.6% over the same period last year, reaching 102.6 million euros.

Net income improved by 23.7%, reaching 31 million euros.

An important fact worth emphasising is that on 24 March the European Commission imposed provisional tariffs against imports from China and Taiwan for cold-rolled stainless steel flat products, a process that will run its course until it the Commission rules on it definitively in September.

**Key variables of the year**

- Acerinox is considered by the market as the most efficient stainless steel industry in the Western world. Since there is not enough visibility of other regions, I think this year we have managed to leverage our unquestionable competitive advantage, our smart geographical diversification and also the values at the core of our company culture. Self-complacency is not one of them, so although results have been strong, we look forward to improving them in the future, investing the means and working every day to make it a reality.

- We believe that prudent financial structures and management are essential elements going forward. And ACERINOX has no doubt improved its financial structure.

  Indeed, at year-end 2014, net financial debt for the year stood at 616 million euros, up 86 million euros since the previous year, as a basic consequence of the increase in working capital amounting to 261 million euros.

  Financial leverage was 33.2% when in 2013 it was 34.1%. The debt/EBITDA ratio stood at 1.4, comparing very positively with 2.3 in 2013. In other words, at year-end the Group was in a position to repay their debt in one year and four months.

  The improved liquidity of the markets was also leveraged to extend debt maturities, improve financial conditions and sign new longer-term refinancing contracts. At year-end, credit lines were held amounting to 1.9 billion euros, of which 29% were available.

- Finally, I wish to emphasise that Acerinox, as the undisputed leader in its field, is extremely active in staying in touch with all the public or private organisations which define, design or establish regulatory criteria that influence our industry, particularly all those affecting our competitive or environmental position, so that their voices are heard and their legitimate interests are defended.

## Responsibility and Sustainability

As you all probably know, there is currently a tendency in the business world to promote the so-called “integrated report” as a key means of providing corporate information. Company activities are articulated under two broad categories: economic and business activity and what is termed as the company social dimension.

This trend has been supported by the European Union directive 2014/95/EU of the European Parliament and the Council of 22 October 2014, amending Directive 2013/34/EU with regard to disclosure of non-financial information and information about diversity by certain large companies and certain groups, which in summary encourages national governments to promote the “integrated reporting” philosophy.

I have the satisfaction of communicating that Acerinox, like other large companies, has structured its corporate information under the “integrated reporting” philosophy since 2013. In addition to communicating how we create value and wealth for our shareholders through our financial statements, we also communicate the “social dimension” of our company. We thus aim to convey how we pursue our objectives and the reasons why we will continue to do so in the future. Stated differently, in addition to the company’s mandate to create wealth, we value the existence of our project and our capacity to safeguard it over time, something constantly required of us from our shareholders, our employees and the society with which we interact.

I will now highlight some of these elements:

## Corporate Governance

Aware of the importance of Corporate Governance for shareholders, investors and the society at large, the Board of Directors and management bodies make it a strong priority.

We take care of the variables and indicators that define the quality of Corporate Governance in corporations, investor protection, the safeguarding of shareholders interests — especially minority investors —, the efficiency of the Board of Directors and its respective Committees, the strength of reporting and auditing systems, which are, among others, critical variables that we monitor constantly.

During 2014 the Board of Directors held seven meetings and the Executive Commission four, making a total of eleven, which once again shows the commitment of Board members to the Company’s success.

The Audit Committee met eight times to pursue the wide range of responsibilities assigned to it, holding as many meetings as it deemed necessary with Finance, Risk Management, external auditors and the internal audit service.

The Appointment and Remuneration Committee met five times, successfully meeting all its duties recommending senior management appointments to the Board as well as remuneration policies for the same and the Board itself, providing evaluations of the Board and Committees recommended by good corporate governance practices.

In 2014 and the first months of 2015 we received important news from Corporate Governance. The mandatory Capital Companies law is being reformed, and an optional new Good Governance Code for Listed Companies was put forward, which was implemented in replacement of the 2006 Unified Code.

As you have been able to note in the information already provided for this General Meeting, the company aligned its Bylaws, the Regulations of the Shareholders' Board and Board of Directors, according to new legislation and new recommendations taking into account our company’s situation. As can be seen in the Agenda, we submit the amendments made for your approval.

Please be advised that our company already largely complies with the recommendations in the new code. Our intention is to be fully transparent in all matters pertaining to Corporate Governance decisions and to that end we have assigned all Corporate Governance and Corporate Social Responsibility powers to the Board’s Appointments and Remuneration Committee, which will now be called the Appointments, Remuneration and Corporate Governance Committee.

## Corporate Social Responsibility

Another key element in this social dimension to which I referred earlier is our corporate social responsibility policy. As an industrial company, this policy aspires to be exemplary and be understood in its broadest sense, in keeping with a philosophy of compliance beyond what the law strictly requires.

The Report lists in great detail the many initiatives that the company carries out throughout its geographical areas and its areas of action, but allow me to highlight some of the ones I find most relevant.

- The way companies manage their fiscal policy has become a key element for measuring the quality of company’s corporate social responsibility. At Acerinox we live by the principle that the only admissible tax policy is to comply fully with the letter of the tax law and respect the spirit of the law. We therefore adhere to the July 2010 Code of Good Tax Practices, complying stringently with its guidelines.

- Our company, management and employees everywhere are directly committed to care and respect for the environment. The goal, in short, is to use resources wisely and efficiently, to properly manage the waste which our activity generates and effectively measure and monitor our impact, in the form of emissions, immissions or effluents.

The programmes we have in place, such as the "Target Zero Emissions", strictly control the use of inputs such as water and the effluents we produce, while optimising power and gas consumption.

We continuously monitor the major emission sources of our factories and we do so uniformly across our facilities, applying the highest standards — generally European — regardless of the nationally stipulated obligations.

In the field of waste management, Acerinox has been able to develop its casting technology using up to 60 percent recycled material, well above the world average for steelmakers.

We allocate around 100 million euros annually to measures dedicated to environmental care and correction measures.

All these actions position us as one of the most efficient companies in the environmental field, a fact attested to by the numerous national and international awards received over the years.

- Our industrial activity involves risks and therefore occupational safety and health are a key priority within the objectives of management and workers at all levels.

  2014 was the third consecutive year without fatalities in our workplaces, which puts us at the forefront of prevention and risk management in the steel industry.

  In this area, as in many others, we never rest on our laurels. We equate our employees with subcontractors' employees, developing continuing education, requiring preventive measures and conducting regular inspections to ensure top industry rankings in this area.

- Diversity and equal opportunity policies are now increasingly popular, but it should be stressed that these values are nothing new for Acerinox.

  Our Board of Directors, for starters, includes two Japanese, one American, one South African and the rest Spaniards, a clear reflection of our outlook as a multinational and global Spanish company.

  The situation of our companies in the world also reflects this diversity, where management bodies comprise mostly local talent and enforce rebalancing policies where necessary, as in the case of Black Empowerment in South Africa.

  Gender equality is also a reality in our company, subservient only to the principles of merit and ability, as we aim to attract and manage talent regardless of where it comes from.

- Our R&D and innovation strategy is directly linked to our environmental performance and talent.

  Acerinox always aims at continuous improvement, reflected in its R&D actions, which are specified in broad fields of action and specific research and development programmes which we can group into process improvement and manufacturing efficiency programmes and developments linked to product excellence.

  We collaborate in research and development initiatives with research centres and universities, and whenever possible with suppliers and clients. Many of these programmes feature specific results in the form of efficiency improvements, environmental enhancements, product development and new application breakthroughs.

  In 2014 we earmarked 16 million euros for R&D and innovation in direct programs, a figure which would certainly increase significantly if we took into account all our indirect development.

- And lastly, I wish to refer to the social action of our company as expressed in the financial contributions provided to a large number of social projects and initiatives in the environment of communities where our group has facilities.

  These include programmes for boosting the growth of small businesses, job search assistance for people without training and resources, and social integration programmes in the environment of our factory in Columbus.

  We undertake programmes in collaboration with Works Councils for helping various NGOs and Associations close to Acerinox Europe.

  We allocate funds and resources for various programmes in our NAS and Malaysia factories.

  These are examples of a long list of actions that showcase the commitment of our company with the social environment we interact with, and with which we feel the obligation of giving back to.

**Stock price**

I will address an issue of particular relevance to our shareholders, namely our share performance in the stock market during financial year 2014 and so far this year.

Over 2014 all the news related to our industry, like the moratorium on the export of nickel pig iron from Indonesia and rumours of anti-dumping measures, coupled with our company's strong results reported in the various result statements posted throughout the year, led to the markets revaluating our share by 35.2 percent, ten times higher than overall IBEX 35 growth at 3.7 percent.

So far this year, due to high volatility and announcements from our competitors which are beyond our control, our share price has gone up by around 13 percent compared with the IBEX 35 10 percent.

The truth is that a review of the most recent analyst reports is enough to confirm that our share is very highly recommended. Of the twenty-four recent analyses, 92 percent recommend buying and keeping — 59 percent buying and 29 percent keeping —, whereas only 8 percent recommend selling, setting a target price of 16.4 euros per share, which would mean a potential appreciation of around 15 percent.

Finally, and although we are not aware of the criteria used by the IBEX 35 Technical Advisory Committee, we think that according to liquidity criteria our share stands a strong chance of being included in the selective IBEX 35 index.

**<u>Resolutions to be submitted to the Meeting</u>**

In addition to the usual matters submitted to the Board, today I want to emphasise that we bring the following for your approval:

→ **<u>Flexible Dividend</u>**

Given the Company's strong results, the Board of Directors proposes that the General Meeting continue with the shareholder remuneration policy which we have been implementing in previous years, and once again this year do so through the flexible dividend or dividend option system which has met with such success the two previous years.

We submit for your approval the application of a flexible dividend for 2014, through an increase in share capital against voluntary reserves, by issuing new ordinary shares with a nominal value of 0.25 euro cents each share, of the same class and series as those presently outstanding.

It should be noted that given our strong share performance, shareholders who chose to receive the dividend in shares have seen their shares significantly increase in value. Those who received payment in shares in 2013 have seen an appreciation of 90 percent and those who did so in 2014 have seen their shares increase in value by 8 percent.

→ **Reappointment of Directors**

We submit for your consideration the re-election of proprietary directors Mr Pedro Ballesteros Quintana, Mr Yukio Nariyoshi and independent director Manuel Conthe Gutiérrez, and the ratification and appointment of the Independent Director Mr George Donald Johnston.

All of them have been proposed by the Board of Directors prior report of the Appointments and Remuneration Committee.

→ **Amendments to the Bylaws, Regulations and "Annual Report on remuneration of Directors"**

As indicated above, we subject the following to your approval:

- The seventh item on the Agenda stipulates the amendment of the Bylaws to align them to law 31/2014 of 3 December.
- The eighth item calls for the amendment of the Regulations of the General Meeting to align it with that same law.
- And in the ninth point, we request your advisory vote on the "Annual Report on remuneration of Directors".

**Acerinox — a company prepared for the future**

I conclude my address to all of you, Ladies and Gentlemen, assuring you that our company is very well equipped for the future, and this is so because it is prepared both in terms of its competitiveness and its economic-financial structure.

Thanks to our clear strategy — based on an optimal geographic footprint and smart product diversification, an efficient and very relevant presence in key markets of developed and developing countries — we stand well poised to balance risks on the one hand and leverage the success of our competitive advantages on the other.

We are a flexible company that adapts quickly to changes in the global market in which we operate. Our strong culture of constant improvement and our light and highly austere structure are values that are key to success.

All these values confirm the Acerinox vision and leadership in the stainless steel sector and I strongly believe they will allow us, in despite of the great difficulties and challenges that we must overcome, to achieve the goals and objectives we have set for the future: find the path to achieve solid and recurrent results driving us to generate attractive value for our shareholders.

Everything we have achieved and will achieve is due to the effort and work of a brilliant leadership team recognised by the market, an excellent team and all our employees — committed and dedicated to the company. We extend to all of them our gratitude for their dedication and effort, without which none of this would have been possible.

And of course, we also express our thanks to all of you, our shareholders, for your continued support and trust, which gives us the strength and motivation to keep going.

Thank you very much!

Rafael Miranda Robredo
Chairman of the Board of Directors